Legislative Fiscal Bureau
Fiscal Note

HF 621 - Loan Guarantee Fund (LSB 3035 HV)
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Fiscal Note Version — New

Description

House File 621 establishes the Loan and Credit Guarantee Program in the Department of Economic Development and requires the Department, pursuant to agreements with financial institutions, to provide loan and credit guarantees, insurance, coinsurance in conjunction with other providers of loan guarantee programs, or other forms of credit guarantees for qualified businesses and targeted industry businesses for eligible project costs. The Bill prohibits the Department from pledging the credit of the State and requires the Department to: cooperate with financial institutions in the State, adopt a loan or credit guarantee application procedure for a financial institution on behalf of a qualified business, and enter into a loan or credit guarantee agreement with the cooperating financial institution upon approval of a loan or credit guarantee. The proposed legislation requires the Department of Economic Development to establish fees and other terms that discourage businesses with other forms of private capital from participating in the Loan and Credit Guarantee Program. The Bill requires the Department to set fees and other terms to assure that the administration of the Program is self-sustaining. House File 621 establishes a Loan and Credit Guarantee Fund and specifies the use of the moneys in the Fund. The Fund is to be comprised of:

- Moneys appropriated by the General Assembly for the Loan and Credit Guarantee Program.
- Proceeds from collateral assigned to the Department, fees for guarantees, gifts, and moneys from any grant made to the Fund by any federal agency.
- Moneys appropriated by the General Assembly from a fund enacted by the General Assembly during the 2003 Legislative Session and funded with bond sale proceeds totaling more than $500.0 million.

House File 621 allows the Department of Economic Development to pledge up to $50.0 million in the Loan and Credit Guarantee Fund to assure the repayment of loan and credit guarantees or other extensions of credit made to or on behalf of qualified businesses for eligible project costs.

Assumptions

1. The Department of Economic Development would require one additional Administrative Assistant 4 FTE position at a cost of $70,000 per year to administer the Program.
2. The Department would require $2,000 in FY 2004 for the development and printing of program materials.
3. The Department is required to establish fees and other terms in order to make the administration of the Program self-sustaining. The established fees will be insufficient to cover the administrative cost of the Program during FY 2004. However, fee collections during FY 2005 will be sufficient to cover the administrative costs of the Program.
4. In FY 2004, ten loans or credit guarantees would be made. In FY 2005, 20 additional loans or credit guarantees would be made.
5. The average loan amount would be approximately $250,000. The Department would charge a $1,000 application fee per loan and would charge a processing fee equal to

1.0% of the loan amount. Total revenues for FY 2004 would be approximately $35,000 and $70,000 for FY 2005.

6. The State would guarantee up to 25.0% of each loan made. Since only businesses that cannot qualify for bank financing are eligible for this Program, a loan default rate of 30.0% to 40.0% over the long term is anticipated. In the first year of the Program, FY 2004, no defaults will occur. For FY 2004 and FY 2005, 30 loans will be made, and 20.0% or six loans will be in default in FY 2005. The total amount of the six loans would be $1.5 million. At 25.0% loan or credit guarantee, the Department would incur a loss of $375,000 in FY 2005.
7. An appropriation made by the General Assembly and/or proceeds from collateral assigned to the Department, fees for guarantees, gifts, and moneys from any grant made to the Fund from the federal government will cover any losses incurred by loan defaults.

Fiscal Impact

The fiscal impact of HF 621 would result in increased expenditures of approximately $37,000 in FY 2004 and $375,000 in FY 2005. The revenue and expenditure breakdown is as follows:

LOAN AND CREDIT GUARANTEE PROGRAM FUND

	FY 2004			FY 2005		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Revenue						
General Fund	unknown	unknown	unknown	unknown	unknown	unknown
Fees	$ 0	$ 35,000	$ 35,000	$ 0	$ 70,000	$ 70,000
Other	unknown	unknown	unknown	unknown	unknown	unknown
Total	$ 0	$ 35,000	$ 35,000	$ 0	$ 70,000	$ 70,000
Expenditures						
Salaries	$ 0	$ 70,000	$ 70,000	$ 0	$ 70,000	$ 70,000
Start Up	0	2,000	2,000	0	0	0
Default	0	0	0	0	375,000	375,000
Total	$ 0	$ 72,000	$ 72,000	$ 0	$ 445,000	$ 445,000
Net Effect	$ 0	$ (37,000)	$ (37,000)	$ 0	$ (375,000)	$ (375,000)

Costs associated with loan defaults will be covered by appropriations made by the General Assembly for this purpose and/or by proceeds from collateral assigned to the Department, fees for guarantees, gifts, and moneys from any grant made to the Loan and Credit Guarantee Fund from the federal government. No defaults are anticipated for FY 2004. In FY 2005, 20.0% of the 30 loans outstanding will default resulting in a cost of $375,000. This cost will increase in the future as additional loans are made. It is anticipated that the default rate will rise to 30.0% to 40.0% over the long term.

Source

Iowa Department of Economic Development

/s/ Dennis C Prouty

April 2, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.